



## Europe's magnetic attraction

May 17th 2001

From The Economist print edition

**The enlargement of the European Union presents a big but necessary risk, says Gideon Rachman**



TWO helicopters land on a muddy football field in north-western Bulgaria. Out clambers a small delegation from the European Union, watched by hundreds of onlookers. The visitors, led by Günter Verheugen, the commissioner in charge of EU enlargement, are swept off to meet local dignitaries. In the town hall, the mayor of Vidin, a small town near the Serbian and Romanian borders, recounts a sad tale of decline. Many local factories have closed since the fall of communism; the war in Serbia and the blockage of the Danube river have dealt further blows to the economy; unemployment is at 25%. He concludes his talk with a plea: "You represent hope for us."

Mr Verheugen holds out the promise that impoverished Bulgaria will soon be able to join the European Union, Europe's richest club. He is careful to stress that joining the EU will not be easy, and that it will not bring instant riches. But at each of his stops the softly spoken, cashmere-coated commissioner reiterates his belief that Bulgarian membership is inevitable, and that it will come sooner than many people think. Bulgaria, he says, could finish negotiations by the end of 2004.

If and when Bulgaria joins, the EU will already have admitted a number of other new members. Ahead of Bulgaria and Romania in the queue are Poland, the Czech Republic, Hungary, the three Baltic states (Estonia, Lithuania and Latvia), Slovenia, Slovakia, Cyprus and Malta. Turkey has also applied to join the Union, amidst much embarrassed coughing on the EU side, but membership for it could still be a generation away. The countries of Central and Eastern Europe are much closer to getting in.

For more than 40 years, the iron curtain divided the continent of Europe between a prosperous and free west and an impoverished and oppressed east. The European Economic Community, originally made up of six members, gradually expanded to take in almost all of the western part of the continent. More recently, it signalled its growing integration by changing its name to the European

Union. When communism collapsed and the iron curtain came down in 1989, the EU pledged to embrace the countries of the east by admitting them to its club. This, it was hoped, would spread the peace, stability and prosperity enjoyed in the west to the east and “reunify” the continent. More than a decade later, the Union looks likely at last to make good on its promise.

The enlargement of the EU is intended to erase the east-west division left by the cold war, but it is also about binding the wounds remaining from the second world war. The creation in the 1950s of what became the European Union was intended, above all, to make any further wars between France and Germany unthinkable. But the second world war started in the east, with Germany's invasion of Poland. For the Germans in particular, bringing Poland “into Europe” is a historic task.

## Make haste slowly

The EU is often castigated for having been slow to admit the Central Europeans. Certainly some rash promises have been made in the past. At one point Jacques Chirac, the French president, and Helmut Kohl, a former German chancellor, promised that Poland would be in the EU by 2000. The applicant countries joke grimly that they have been promised membership of the EU within five years—every year since 1990. The suspicion remains that the EU does not really want a lot of poor new members, and may yet try to wriggle out of the deal.

The applicants will certainly not be bringing a rich dowry. If all the candidates from Central and Eastern Europe were admitted, the EU's land-mass would increase by 34% and its population by 29% (to around 500m) but its GDP by only 5% at current exchange rates. The average GDP per head in the EU would fall by 16% in purchasing-power terms. By contrast, the admission of Spain, Portugal and Greece in the 1980s reduced the EU's average income by just 6% (see table 1). Laszlo Kover, the chairman of Fidesz, Hungary's main governing party, claimed last year that the EU was regretting its promises to the applicant countries “like a dog that has had a litter of nine”. In Poland in particular, there is a strong feeling that mean-minded West Europeans are in danger of forgetting the moral obligations they owe to the Poles, who suffered dire privations under the Nazis and during the cold war.

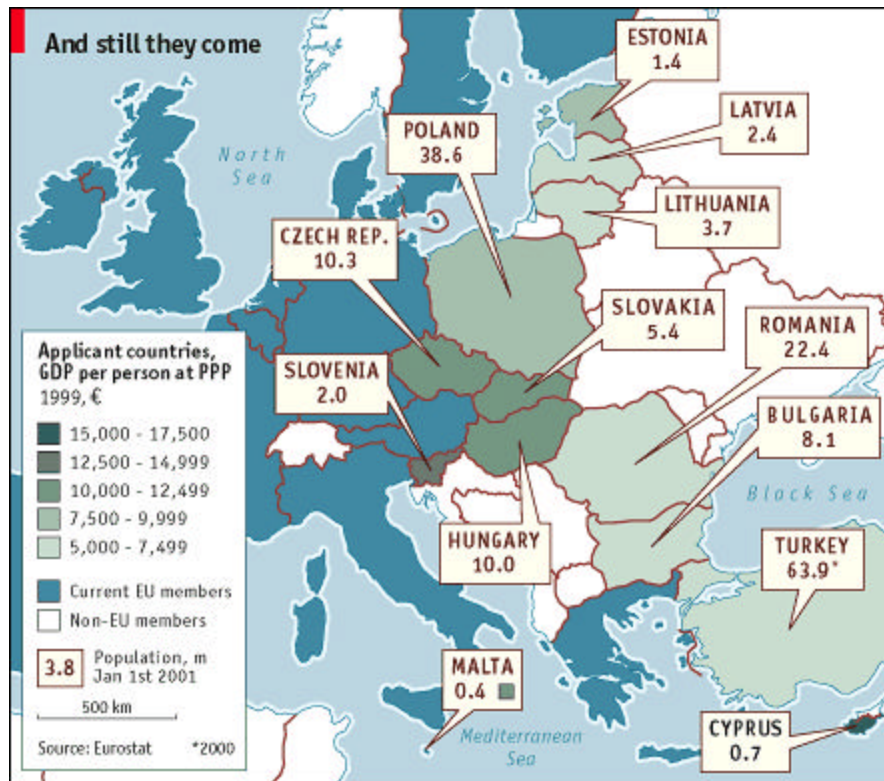
The bigger, the poorer					
Impact of successive enlargements on the EU*					
Enlargement	Increase in area, %	Increase in population, %	Increase in GDP (at PPP <sup>†</sup> ), %	Change in GDP per person, %	GDP (EU 6=100)
EU 6 to EU 9, 1973	31	32	29	-3	97
EU 9 to EU 12, 1986 <sup>‡</sup>	48	22	15	-6	91
EU 12 to EU 15 <sup>§</sup> , 1995	43	11	8	-3	89
EU 15 to EU 26 <sup>  </sup>	34	29	9	-16	75

\*Based on 1995 data    <sup>†</sup>Purchasing-power parity (PPP) seeks to equalise the prices of identical bundles of goods and services in each country    <sup>‡</sup>Greece joined in 1981    <sup>§</sup>Including German unification    <sup>||</sup>Excluding Malta and Turkey  
Source: European Commission

But criticising the EU for its lack of generosity is in itself rather ungenerous. The Union is not just another loosely knit international organisation. Its members make laws and policies that apply everywhere within it, and transfer large amounts of money from one country to another. Citizens of any EU country have the right to live and work anywhere else within the Union, and are entitled to education and medical treatment there. Once the new members join, they will graduate from being neighbours to sharing the house.

Given the depth of the mutual obligations involved in EU membership, it is understandable that the current members are treading carefully. And caution aside, joining the EU is a vastly complicated

business. All new members have to satisfy demanding criteria. Politically, democracy and the rule of law are mandatory. On the economic front, applicants need to establish a stable market economy able to withstand competition with other EU states. And then there is the time-consuming task of adopting the whole body of current EU law—the *acquis communautaire*.



Furthermore, the oft-proclaimed benefits of enlargement—reunification, stability, prosperity—are not as straightforward as they appear. Enlargement of the EU will unify some parts of Europe, but it will also open up new divisions further east. It should create stability by expanding the network of European countries committed to democracy and co-operation, but it may also introduce new instabilities and political strains both among the current members and among the applicant countries. By encouraging trade and investment, enlargement will certainly contribute to prosperity. But by obliging the applicant countries to adopt laws that may be inappropriate for them, it could also neutralise that potential benefit.

Even so, this survey will argue that the balance of arguments remains strongly in favour of enlargement. To this end, it will consider, first, why the current EU members promised to open the door to the Central and East Europeans, and what those old hands stand to gain and lose. Next, it will examine the issue from the viewpoint of the applicant countries, and consider ways of resolving some of the most difficult issues—agriculture, financial transfers and free movement of labour. Lastly, it will look up from the mass of dossiers and negotiating positions currently littering the conference tables of Europe to ask where the process of EU enlargement will eventually stop.

## Reasons of state

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**Why, despite a few doubts, the current members of the European Union are keen to enlarge the club**



### Eastward ho

THE growth of the European Union has coincided with an unprecedented period of peace and prosperity in Western Europe. France and Germany, which fought three devastating wars between 1870 and 1945, are now the closest of partners. Spain, Portugal and Greece have recovered from a long period of authoritarian backwardness to join the European mainstream. Historians will debate just how much credit the EU can take for this newly golden European age. Other factors—America's military role in Europe, the growth in world trade and the end of competition between imperial powers—have all played their part. But to many of its member states, it is first and foremost the European Union that can take the credit for banishing the ghosts of history.

Having buried old conflicts in the west of the continent, the EU now wants to repeat the performance in the east. West European politicians make it clear that their desire to spread peace and prosperity eastwards is not solely—or even largely—motivated by altruism. Joschka Fischer, Germany's foreign minister, put the argument bluntly in a much-discussed recent speech on the future of Europe:

Following the collapse of the Soviet empire, the EU had to open up to the east, otherwise the very idea of European integration would have undermined itself and eventually self-destructed... An EU restricted to Western Europe would forever have had to deal with a divided system in Europe: in Western Europe integration, in Eastern Europe the old system of balance of power with the permanent danger of nationalist ideologies and confrontations... In the long term this would make Europe a continent of uncertainty, and in the medium term these traditional lines of conflict would shift from Eastern Europe into the EU again. If that happened, Germany in particular would be the big loser.

Mr Fischer's compatriot, Mr Günter Verheugen, to whom it has fallen to oversee the EU's efforts to enlarge to the east, lists three main reasons why the current 15 members of the Union are keen on pursuing enlargement. The first is stability; the second is a moral obligation to help the victims of Nazism and communism; the third—mentioned almost apologetically—is the economic opportunity offered by the new markets of the east. But, he says, "The real point is the strategic point. Our experience is that the best way to project stability and democracy is through European integration."

## It's been done before

It is, above all, the experience of integrating Spain, Greece and Portugal that has encouraged the current generation of EU leaders to believe Union membership can cement the transition from autocracy to democracy. Twenty years ago, it was still possible for gun-toting nationalist soldiers to charge into the Spanish parliament. A generation later, democracy in Spain is secure, and politicians from those three countries play leading roles within the EU. A Spaniard, Javier Solana, is the public face of the EU's foreign and security policy, and a Portuguese, Antonio Vitorino, is in charge of the sensitive job of creating a European-wide justice system at the European Commission.

Inevitably, though, the implications of eastward enlargement are complex and sometimes double-edged. There is a risk that as well as exporting stability, the European Union might import instability. Such instability could arise in one of four ways: in the borderlands of the new European Union; within the new members; within the current 15 members; and through the as yet unpredictable effects of enlargement on the balance of power within the Union itself.

The borderlands present an obvious new risk. Once enlargement is completed, the EU will have frontiers with some pretty rough parts of the world. Eastward enlargement will take the EU into the heart of the Balkans. Indeed, if Turkey ever joins, the EU will have borders with Iraq, Syria and Iran, among others. Thanks to Finland's membership, the Union already has a long border with Russia. That will get longer still when the Baltic states join the EU—and there is an added complication: once Lithuania and Poland become members, a Russian enclave—Kaliningrad—will lie entirely within the borders of the EU. Further south, unless the EU can broker a peace settlement in Cyprus, it may end up admitting only the Greek half of the island, thus placing itself in the middle of the long-festering conflict between Greece, which has been a member for some time, and Turkey, which is keen to join.

One plausible fear is that in helping to stabilise its new members by incorporating them into the Union, the EU may inadvertently destabilise the countries on its new borders. For example, economic ties between Poland and the Ukraine could be badly damaged by the requirement that Ukrainian visitors to Poland—on the Union's new eastern frontier—must have visas. The threat that the EU could become involved in new zones of conflict is one reason often advanced for trying to provide it with a means of taking independent military action.

New members too could cause trouble. Before the EU will even open negotiations with an applicant, it has to be satisfied that the candidate country is a functioning democracy. The idea of a member state backsliding on democracy is a nightmare for the EU, as illustrated by the mini-crisis provoked last year by the entry of the far-right Freedom Party into the Austrian government. If this sort of thing is possible in a mature democracy such as Austria, there must be a risk that it could happen in some of the new members of the Union, with shorter democratic histories and difficult economic transitions to go through.

Yet of all the potential sources of instability within an enlarged Union, the threat of political backsliding in the new eastern members is probably the smallest. Democracy seems secure in countries such as the Czech Republic, Poland and Hungary, which are likely to be early members of the Union; and countries that are less settled, most notably Romania, are further back in the



queue.

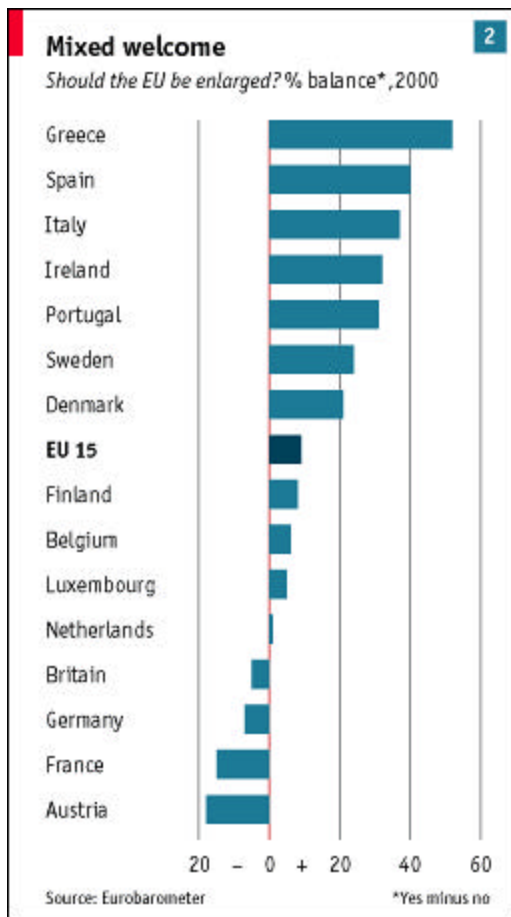


### Westward bound?

There is, however, a subtler political risk than that of a return to outright autocracy in the new member countries. Because the nation-states of the European Union pool sovereignty and legislate jointly, members need to be able to trust each other. It is not enough for all of them to pass the 80,000 pages of laws and regulations known as the *acquis communautaire*. They also have to be reasonably confident that these laws and regulations will actually be monitored and enforced across the Union.

This issue is already causing tension within the present-day EU. "Northern" members routinely accuse "southern" ones of having laxer standards of administration and honesty in public life. Some current members worry that this "trust gap" will become even wider once the EU admits a batch of post-communist countries that are relatively new to the concept of an impartial and apolitical civil service. The Union has made membership contingent on the introduction of new administrative and judicial structures, but it has no mechanism for judging the quality of an administration.

Such a "trust gap" between new and old members might also undermine support for the European Union within the current member states. One reason why the current 15 have moved so cautiously over enlargement is that it is a politically sensitive issue back home, particularly in Germany and Austria, where immigration from the east is quite widely feared and support for the enlargement process is relatively low (see chart 2). Jörg Haider of Austria's Freedom Party, although now theoretically in favour of enlargement, has stirred up fear of foreigners in recent campaigns. Angelika Volle of the German Council on Foreign Relations in Berlin worries that enlargement might cause a "Haiderisation of European politics".



In response to these anxieties, the European Commission has proposed a transition period before allowing completely free movement of labour within an enlarged Union. This could last as long as seven years, although it will be reviewed after two and five years. Once again, Spain and Portugal have set an encouraging precedent. They, too, started off with a seven-year transition period on the free movement of labour, but fears of a flood of migrants pouring into France and Italy were soon found to be misplaced, as were fears of a backlash against migrant labour.

Lurid German newspaper headlines have suggested that Germany might face 6m immigrants from the applicant countries within a decade. But a recent study by the European Integration Consortium, a grouping of West European think-tanks, estimated that the current EU-15 are likely to attract around 335,000 immigrants a year from the east once free movement of labour has been introduced. Given the labour and skills shortages in the present member countries, they should generally welcome an influx of eager new workers from the east. There may be frictions in pockets of high unemployment—such as in eastern Germany, where unemployment is close to 20%—but since immigrants in search of work will tend to go to where the jobs are, these are unlikely to be severe.

## Gypsy caravan

A bigger problem may turn out to be the 6m or so Gypsies (or Roma) who currently live in Central and Eastern Europe. Most of them are grindingly poor, so they will have plenty of incentives to look for better opportunities in the west. Indeed, once complete freedom of movement has been achieved within an enlarged EU, Gypsies will enjoy the same rights as any other EU citizens, including limited access to welfare benefits in other EU countries. But the shrill reaction to the

present influx of Gypsy asylum-seekers in countries such as Britain, Germany and Belgium suggests that a broader movement of Gypsies into Western Europe could cause real political problems.

For the moment, the EU is treating the issue of the Gypsies as one of minority rights and economic opportunities within the applicant countries. Mr Verheugen and his colleagues usually make a point of visiting a Roma settlement on trips to countries such as Bulgaria, Hungary and Slovakia. They hope that giving the Gypsies in Central Europe more opportunities and rights in their own countries will prevent unmanageable outflows to the west.

The final category of enlargement-related issues that worry the EU's existing members goes to the very heart of the Union. The conclusion of the Treaty of Nice last December was in many ways a triumph for the cause of enlargement. The allocation to the candidate countries of voting rights in the Council of Ministers and seats in the European Parliament suddenly made the process of enlargement seem much more real. It also removed the last formal institutional barriers to enlargement. But the acrimonious nature of the negotiations, and the difficulty of securing agreement even among only 15 members, raised the question whether an EU of as many as 27 members would be able to operate at all.

Partly for this reason, a lively debate about a future constitution for the EU is taking place alongside the enlargement negotiations. Some argue that unless the veto rights of national governments over proposed EU laws—most notably in areas such as taxation and regional policy—are curtailed further, the EU will become paralysed. Others say that “one-size-fits-all” policies may become increasingly inappropriate in an enlarged EU made up of countries of such different sizes and income levels.

All this has led to growing demands for an “avant-garde” or “inner core” of EU countries that can press ahead with deeper integration if they wish. Variants of the idea have been promoted by Mr Fischer and Jacques Delors, an influential former head of the European Commission. But in the chancelleries of Central Europe such notions are treated with some suspicion for fear they might relegate their countries to second-class membership.

## Money matters

Much of the debate on how decisions are to be made comes down to money, particularly in the tricky areas of agricultural and regional policies. Between them, agricultural spending and regional aid account for around 80% of the EU's annual budget. It is widely believed that extending the present system of guaranteed prices and direct payments to farmers in Central Europe, particularly in Poland, would bankrupt the EU's common agricultural policy. Any compromise that is half-way fair to the applicant countries will mean financial sacrifices by the current member states, notably France, which has always done well out of the CAP. When it comes to regional and structural funds, it is mainly Spain, Portugal and Greece that are likely to suffer, because they are the ones that get the most subsidies at present.

The question remains whether all the current members will ultimately be willing to make the short-term sacrifices to allow enlargement to go ahead. Most decision makers in the applicant countries are confident that their German counterparts (though not necessarily the German public) are solidly behind the idea. But many fear that France, the traditional co-leader of the European Union, remains unreconciled to enlargement.

French reservations are easy to understand. For France, the main point of European integration was to prevent Germany from again dominating Europe. Now it fears that a united Germany, at the geographical heart of an enlarged European Union, will indeed emerge as the dominant economic and political force. Many French analysts assume that Central and Eastern Europe will form a natural German sphere of influence, which will make it hard for France to maintain its traditional leading role within the EU. As a senior French official working for the EU puts it: “France still has



not got over the psychological shock of German unification. Preventing the rise of German power has been a French national goal almost since the time of Richelieu. Now France is searching for a new strategy, but I'm not sure it will find it."

The arrival of the applicants from the east is also hastening the ascendancy of English as the EU's major working language, which has deepened French gloom. Moreover, there are fears in Paris that countries such as Poland will turn out to be exuberantly pro-American, undermining another traditional French goal: to develop the EU as a block to counter-balance the United States. Dominique Moïsi of the Institute for International Relations in Paris says that some senior French diplomats see the applicants from the east as a "Trojan horse for the Atlantic alliance".

But the normally unflappable Mr Verheugen flushes with anger when asked if "certain countries" may yet seek to block enlargement, and dismisses the idea as "bullshit". Enlargement, he points out, is one of the few policies that all EU leaders have endorsed—unlike, say, moves towards a single currency or a common security policy.

Given the strong consensus among EU leaders that enlargement must come, it would be hard for France (or Spain, for that matter) to wreck the process, although they might be able to delay it. And even if French policymakers have misgivings about the consequences of enlargement, most seem to accept that it is both inevitable and necessary. Goran Persson, the Swedish prime minister (and the current president of the EU), leaves no room for doubt: "Any country that tried to block enlargement would bear a heavy and historic responsibility."

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## Joining the west

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### Why the candidate countries want enlargement, warts and all



#### Why agriculture in the east is a headache

ASK Jacek Saryusz-Wolski, the head of Poland's office for EU integration, why his country wants to join the European club, and he laughs: "I haven't thought about that for ten years." Countries such as Poland, the Czech Republic and Hungary feel that they are culturally part of the west, and that it was only the tragic accident of the cold war that cut them off from the past 50 years of economic and political progress. Their leaders believe that joining the EU will anchor them in the prosperous stability of the west and allow them to turn their backs on the threat of chaos, tyranny and poverty to the east.

When pressed, Mr Saryusz-Wolski will cite economic, diplomatic and strategic reasons for Polish membership of the Union. But the ultimate argument—and the reason why Mr Saryusz-Wolski feels EU membership is not even worth debating—is "civilisational". As one of his colleagues puts it: "Imagine there is a river running through Europe, dividing east from west. We have to make sure we are on the right side of the river."

But there are also more concrete reasons for joining the EU, of which the economic ones hold the greatest popular appeal. Opinion surveys show that for Poles, as for other Central Europeans, the promise of prosperity of the sort the west enjoys is one of the strongest motives for pursuing membership. Poland and Hungary suffered deep recessions in the aftermath of the fall of communism, but have since seen rapid economic growth. They are hoping that full membership of the EU will keep that growth going, and eventually allow them to close the wealth gap with their western neighbours. Whether such hopes are justified will be examined in more detail in the next section.

Oddly, the new applicants also often cite European regulation (which some existing members regard as a curse) as one of the attractions of EU membership. Even if they consider parts of the *acquis communautaire* silly or inappropriate for them, many Central and East Europeans like the idea of rules imposed from Brussels to force the new members to maintain open government and a

competitive business environment. They fear that without the EU to keep order, their relatively new political and economic arrangements could still be vulnerable to crony capitalism of the Russian sort. "All the intrusive regulation that most angers the Brits," says one Warsaw-based commentator, "that's exactly what we need in Poland."

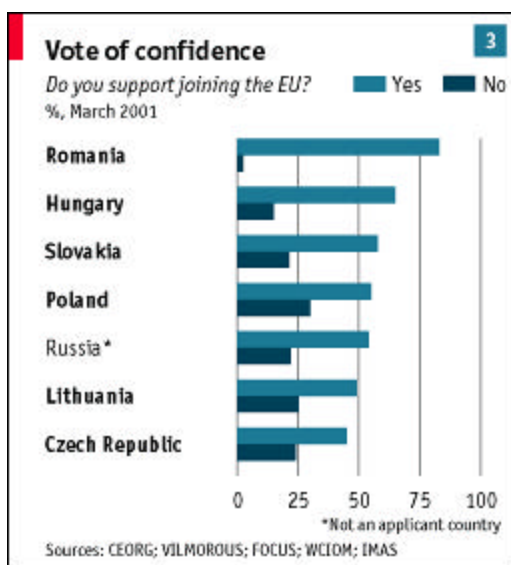
Russia's long shadow also makes EU membership a security issue. Poland, the Czech Republic and Hungary have already joined NATO, and nine other countries, including the Baltic states, are in the queue. But even though NATO is a security alliance and the EU is not, the applicants feel that membership of the EU confers an extra level of security. It is simply inconceivable— isn't it?—that Russia would dare to threaten a full member of the EU.

As for Germany, the other historical threat to the countries of Eastern Europe, the European Union is specifically designed to water down the power of big countries. Poland, with a population half as big as Germany's and an economy a tenth the size, will get 27 votes in the law-making Council of Ministers, against the Germans' 29. And even tiny applicants such as Estonia (population 1.4m) or Malta (population 400,000) will secure a seat at the top table for their prime ministers, who will have as much right to speak and be heard as the prime ministers of the big powers of Western Europe. Indeed, membership will be good for the candidate countries' elites all round. A well-educated Pole, Czech or Balt with a good grasp of English can expect all sorts of lucrative career opportunities in Western Europe.

So dazzled have the applicant countries been by the strategic arguments for membership that they have only just begun to notice the practical obstacles to getting in, and the difficulty of playing by the rules once inside. Some local commentators are beginning to worry that EU membership has been oversold as a panacea for all sorts of problems, and see a risk of a backlash.

## The small print

Ivan Krastev of the Centre for Liberal Strategies, a Bulgarian think-tank, notes that the idea of EU membership is most popular in those countries that are furthest away from joining. Support in Poland, the Czech Republic and Hungary is solid, but not overwhelming (see chart 3), whereas in Romania it is much higher and, says Mr Krastev, "I'm sure there is 100% support in Albania." Recent visitors to Albania have indeed found the country full of fluttering EU flags, reflecting Albania's belief that its role in the Kosovo war might prove a fast track to EU membership.



In countries close to joining, the small group of people who follow EU affairs are often worried that the public remains unprepared for the realities of being a member of the Union. Tibor Navracsics, a Hungarian academic, feels that because Hungary's pro-European political parties have failed to initiate a real debate on EU membership, "The danger of the emergence of a strong Europhobic movement is quite high. The EU may come to epitomise a remote organisation demanding financial restrictions and higher taxes, yet failing to deliver improvements for ordinary people." Similar concerns are being voiced in Poland. According to a recent academic paper presented to the Polish Senate, "The absence of a debate to confront various visions of European political integration will have disastrous consequences when decisions have to be taken which the unprepared public will refuse to accept."

The Czech Republic is unusual in that some of its mainstream politicians are willing to give such anxieties a public airing. Vaclav Klaus, the leader of the opposition and a self-proclaimed Thatcherite, is openly critical of the "Brussels bureaucracy" and the "scheming federalists" who would "enforce an artificial unification of Europe." But even Mr Klaus stops well short of opposing Czech EU entry.

As negotiations have proceeded, the applicant countries have become more aware of a number of specific problems associated with membership. For example, the EU's opposition to state aid to industry has increased the pressure to close uncompetitive state enterprises. Much of this sort of change would have been necessary whether or not countries were getting ready to join the EU—but it has done little to endear the EU to workers who have lost their jobs.

Officials from applicant countries have also been startled to find that the EU is not always a force for economic liberalisation. The Estonians, who got free-market religion in the post-communist era, grumble that they are now having to raise tariffs again to fit in with EU policies. And when it comes to agriculture, the EU is still addicted to central planning. Thus the Poles, having liberalised their agriculture after the fall of communism, will have to recruit 12,000 new bureaucrats to administer EU agricultural policies.

## The big issues

Agriculture is the worst headache for the applicant countries, and particularly for Poland. Whereas in the EU-15 the farm sector employs around 5% of the population, in Poland the proportion is over 20%. Agricultural plots are small and yields are low. In parts of Poland the horse and cart has yet to give way to the tractor. Polish farmers are doing pretty badly anyway, and fear that if they have to compete with the efficient industrialised farms of Western Europe they will do even worse.

The backlash against industrialised farming that has followed the BSE and foot-and-mouth epidemics has raised hopes that the increased demand for organic food will miraculously turn to the advantage of Central and Eastern Europe. Something like half the land in Bulgaria, for example, has never had chemical fertiliser put on it. Yet even the most optimistic forecasts put the share of organic produce in total EU food sales at no more than 20% a decade from now. And even if Polish smallholders can get themselves organised for the export trade, they will find that obtaining the all-important "organic" label is not just a simple matter of doing without chemicals, but involves some horribly complicated bureaucratic procedures.

Central and East European farmers will be doubly handicapped when trying to compete with their western equivalents: not only are they much more backward, but they are also likely to miss out on much of the EU's elaborate system of agricultural support known as the common agricultural policy. Under current plans, this policy will not be fully extended to the east. Romano Prodi, the head of the European Commission, explains that it would be simply too expensive.

The EU has come up with some dubious justifications for its plans. Direct payments to farmers, it says, are meant to compensate for falling agricultural prices; but eastern farmers have not been

getting western prices for their produce anyway, so there is no need to compensate them. More recently, the EU has begun to move towards the idea of phasing in direct payments to the applicants, in advance of a grand reform of the CAP which would be negotiated in 2005 and kick in after the current budget runs out in 2006. The Union has also realised that many of the farmers from applicant countries would not qualify for subsidies anyway because their plots are too small, so the numbers are not as scary as they look at first sight. Even so, agriculture remains probably the most difficult issue to be settled in this current round of applications.

However, what is known in Brussels parlance as "cohesion" and "structural" funds run it a close second. In the past, less-well-off members—notably Spain, Ireland, Portugal and Greece—have received generous financial help from the EU through these funds, which dish out regional and infrastructure aid. Many motorways, bridges and buildings across southern Europe should have "Thank you, Brussels" emblazoned across them.

Yet the current wave of applicants fear that in future the EU will be markedly less generous, for two reasons. First, the next round of enlargement will greatly increase the number of poor EU citizens. One calculation for the European Commission showed that 51 of 53 regions in the ten Central European applicant countries have an average GDP per head below 75% of the EU average, which under current rules would automatically qualify them for regional aid. However, as with agriculture, the EU will probably try to find ways to massage down their entitlements. Second, the current beneficiaries of EU regional and structural hand-outs are reluctant to give up their claims in favour of their new poor cousins. For example, Spain has been careful to retain a national veto over all EU decisions on regional aid. And as fate would have it, the country that will hold the EU presidency and therefore chair all the negotiating sessions in the first half of next year—when a deal on regional and structural funds is meant to be hammered out—is Spain.

However, if the Union is too mean with the applicant countries, their current warm approval of EU membership could turn frosty. They are already beginning to discover that some of the obligations that EU membership will impose on them will be very expensive. According to the World Bank, full implementation of EU environmental law will cost the applicant countries *euro*50 billion-100 billion over the next decade. Some of the environmental changes would be desirable whether these countries join or not; others seem unnecessarily rigorous at their present state of development.

The wealth gap between present and potential members also explains why another issue is proving so emotive in the applicant countries: land. There is a deep fear across Central and Eastern Europe that rich westerners—particularly Germans—will buy up large chunks of their countries. The price of agricultural land in Poland can be as little as one-tenth that of equivalent land across the border in Germany. The same goes for houses. The problem is all the more acute because borders shifted after the second world war, and millions of ethnic-Germans were expelled from areas that are now part of Poland or the Czech Republic.

In Polish border towns such as Stubice, which lies across the river from Germany's Frankfurt on the Oder, the Poles are very keen on co-operation with their German neighbours; the two towns even have a joint university. But Krzysztof Wojciechowski, the administrative director of the university on the Polish side, points out that he knows of only two Poles in Stubice who were actually born in the town. The local community is made up of immigrants who replaced the Germans forced out after the second world war. Now many of them are nervous that when Poland joins the EU the Germans will return, either waving documents to reclaim their old homes, or simply waving wads of cash to buy up properties. Mr Wojciechowski regards such fears as needlessly alarmist, but a recent rally of the far-right NPD party on the German side of the Oder did nothing to reassure the Poles.

Because the land issue is so sensitive, the Polish government is asking for an 18-year moratorium before foreigners can buy land in Poland. The Czechs and Hungarians, for their part, are asking for 10-year transition periods. These requests will not be easy to accommodate, because free movement of capital is one of the basic principles of the internal market.

## The really important things in life

But a backlash in the applicant countries could just as easily be provoked by something much more trivial. Take cigarette prices. At present the EU is trying to agree on minimal levels of duty, if only to discourage cigarette smuggling. But one EU official has calculated that if standard EU duties were applied to cigarettes in Romania, the price of a packet would go up by 600%. In a poor, hard-smoking country it is difficult to think of a better way of alienating the man in the street.

Pay levels of EU officials could also become a stumbling block. Even in the west, eurocrats are often considered pampered and overpaid, but in the east their remuneration will be seen as positively outlandish. For example, the prime minister of Hungary, one of the most prosperous applicant countries, is paid about \$30,000 a year, whereas Hungary's first EU commissioner will receive about six times that. Similarly, the pay and conditions of a member of the European Parliament are seen as so enticing that long queues of would-be candidates are already forming. It all seems a recipe for alienation between a euro-connected elite and a disgruntled general population.

Yet despite the potential pitfalls, both sides are determined to press ahead. Experience in Western Europe has shown that the general rise in living standards within the European Union has been more than enough to make membership worthwhile. If EU enlargement can be seen to deliver the top priority of ordinary people in Central and Eastern Europe—better opportunities and greater prosperity—it will succeed. Strategic reasons for joining are all well and good, but the economics of enlargement remain crucial.





## The wealth effect

May 17th 2001

From The Economist print edition

### Joining the European Union will make the applicant countries richer, but not overnight

THE cities of Central and Eastern Europe are full of Irish pubs. But it is not just drinkers hunched over their pints of Guinness who are dreaming of the Emerald Isle. In foreign and finance ministries too, a surprising refrain can be heard: "We want to be like Ireland."

Ireland is held up as a model because it has done astoundingly well since it joined the EU. In the early 1970s, just before it joined the European Economic Community (as it then was), the country's GDP per head, measured on a purchasing-power basis, was only 61% of the EU-15 average; by 1990 it had reached 73%, and today it is 115%. In only 30 years, the Irish caught up with and then overtook the rest of the EU.

But EU membership is not a guarantee for getting rich quick. When Greece joined the EEC in 1981, it had an income level of 69% of the community average, but this has come down to about 67% now (although in absolute terms the country is much better off). Spain and Portugal, by contrast, have narrowed the gap with the EU average since joining, but are still some way from closing it (see chart 4).



So what did the Irish get right, and can others repeat the trick? One reason that the Irish have managed such rapid growth in income per head is that there are not very many of them. In a country with a population of just over 3m, high levels of foreign direct investment can have a dramatic effect. In the past decade in particular, foreign investment in Ireland has surged. In this respect, Ireland's story resembles that of Singapore or Hong Kong, which have also managed to use a business-friendly environment to attract high levels of foreign investment, particularly in technology. Like Ireland, they have small populations that were rapidly made richer by a surge of foreign investment.

Still, there are aspects of the Irish experience that new members of the European Union could learn from. Unlike the Greeks, the Irish made good use of the EU aid that flowed into their country,

ensuring that it was well-administered and went into infrastructure projects of lasting value. They also attracted many foreign investors who wanted to take advantage of the European single market by setting low levels of corporation tax and cutting bureaucracy. However, some of the things the Irish did—such as allowing some foreign investors to pay lower taxes than domestic investors—are now illegal under European law.

## No golden halo

The main reason why joining the EU will not provide the countries of Central and Eastern Europe with an economic boost of Irish proportions is blindingly simple. Unlike Ireland, Spain and Portugal, the applicant countries in the east have been given access to EU markets before they formally join the Union. Having concluded free-trade agreements with the EU in the early 1990s, they are already enjoying most of the economic benefits of membership, in particular free trade in industrial goods.

There has already been a dramatic shift in trade patterns since the demise of the iron curtain. In 1988 the communist countries of Central and Eastern Europe did around a third of their trade with the EU; by 1998 this proportion had grown to around two-thirds. That gave the EU a healthy surplus with the applicant countries, which leapt to \$30 billion in 2000.

Foreign direct investment has also shot up. According to a forthcoming report from the Centre for European Reform, a think-tank, foreign direct investment in Poland in the decade to 1995 amounted to less than \$1 billion, whereas in 1999 alone the figure was \$7.5 billion. For all ten applicants from Central and Eastern Europe, the stock of foreign direct investment nearly doubled between 1995 and 1998, from \$33 billion to \$63.4 billion. Although these figures are small in global terms, they are large enough to have a significant effect on the recipient countries. A recent study carried out by the European Integration Consortium, a group of economic research institutes, showed that total annual capital inflows into the candidate countries in 1999 amounted to 6% of GDP and almost a quarter of fixed investment.

Full membership will not change the applicant countries' economic prospects immediately. Agricultural trade will be liberalised, but that is unlikely to be much help to them in the short term because their farm sectors are relatively backward and inefficient. There will be rather more EU aid coming in, but that, too, is unlikely to be a great bonanza, for the reasons outlined in the previous section. Besides, even if there were plenty of money available, under EU rules no country can receive more than the equivalent of 4% of its GDP in EU aid. This is meant to ensure that countries are able to absorb whatever EU money is coming their way, but it will also guarantee that the poorest countries will receive the least aid in absolute terms.

Thanks to the EU's internal market, however, the applicant countries will get more than duty-free access to the markets of other member states: they will also have to adopt the whole body of EU regulations and legal safeguards. This, they hope, will reassure and encourage investors, who will no longer regard them as "emerging markets" with all the implied risks of corruption and ramshackle administration. The movement of goods across frontiers should become easier, and queues at the borders should disappear.

Some businesses in the service sector will also be freed from irksome non-tariff barriers. For example, Vaclav Fischer, whose company, Fischer Travel, is one of the best-known business names in the Czech Republic, can point to a solid advantage that his agency will gain when his country joins the EU. At present all of Fischer Travel's flights to the EU have to start from the Czech Republic itself. Once inside the Union, Mr Fischer could offer tours starting in other EU countries but still keep his head office in low-cost Prague.

However, adopting EU regulations—particularly in the social and environmental fields—may prove burdensome for the new members and increase their costs. At present, average manufacturing

wages in the eastern applicant countries are only 15% of average levels in the EU-15. One eminent German commentator argues that German workers, rather than opposing enlargement, should be supporting it: "Once the applicant countries are in, they become less competitive because they have to keep to our social and environmental standards. It's to our economic advantage, it's not to their advantage."

And then there is the euro. All the candidate countries have had to sign up to join the European single currency in due course. Many present members of the eurozone seem to think there will be a long gap between the Central and East Europeans joining the Union and adopting the single currency, but they are probably wrong. A recent study carried out for the Dutch government concluded that most of the applicant countries are already fairly close to meeting the demanding "Maastricht criteria" on inflation, fiscal deficits and public debt. If some applicant countries get into the EU in 2004, they should be able to join the euro as early as 2006.

The thought of sharing their currency with Poles and Estonians may make the Germans and French queasy, but it is hard to see how they can avoid it. The applicant countries, for their part, are hoping that membership of the euro will provide them with an extra economic boost. Interest rates will fall, often very sharply; and currency stability should persuade foreign investors to buy shares and bonds in the new members states without demanding such a large risk premium. This should help the newcomers to tolerate inflation above the European average without endangering the stability of their economies.

The main questions the applicants need to ask themselves about euro membership are whether their banking systems can stand it, and whether they can live with the tight fiscal controls membership imposes. Members are supposed to limit their budget deficits to 3% of GDP, which some of the newcomers might find unduly restrictive at a time when they are aiming for high growth—though it should be noted that tight fiscal control was part of the Irish success story.

## Catch up, but when?

How will all these factors balance out for the candidate countries? Will there be a fresh surge of investment and trade once full membership of the EU is achieved? The recent report by the European Integration Consortium points out that trade between the applicant countries and the current members of the EU is running only around half the "normal" level of intra-EU trade, but it also says that because "the conditions of trade with the Central and East European countries already resemble those applicable to other EU members... the further impact of accession on the trade potential is likely to be fairly moderate." The consortium's report is more optimistic about the scope for future investment. On the basis of statistics on trade and investment within the EU, it suggests that: "Capital flows to the Central and East European countries may double in the wake of accession."

That would represent a considerable boost to the new members' economies. But businessmen on the ground are less sanguine. PricewaterhouseCoopers, a consultancy, recently talked to senior executives at over 40 companies with an interest in the region and concluded that: "Very few of our interviewees believe that there are significant benefits still to come from the enlargement process... this is because most, if not all, of the benefits are already available." PWC also points out that although foreign direct investment per head in the applicant countries is still well below that in the current EU members, "to a large extent this reflects differences in income per head and, hence, market potential... Relative growth of FDI will be gradual, rather than dramatic."

Gradual rather than dramatic will probably also be the watchword for general economic convergence between the present and the new members of the Union. Greece apart, the history of the EU since 1957 suggests that member states' income levels do gradually converge, although some will always be higher than others. The European Integration Consortium suggests that: "On the basis of the convergence rates observed in the EU in the post-war period, the half-life of the

Central/East European-EU income gap would amount to more than 30 years." Different countries would converge at different speeds. Extrapolating from recent growth rates, Slovenia might take only ten years to catch up, whereas Romania might face a 600-year haul.

Still, the prospect of economic convergence with the wealthy west—even if it takes time—is a mighty prize to dangle before the applicant countries; all the more so because most of the countries of Central and Eastern Europe are only now emerging from the huge economic dislocations that accompanied the fall of communism. By 1998 only two of those applicant countries—Poland and Slovenia—had regained the output levels they had reached in 1989, just before the iron curtain came down. The loss of jobs in heavy industry and in state-run enterprises has left some countries with high levels of unemployment. But with some exceptions—Romania being the most notable—the applicant countries are now enjoying more rapid economic growth than the current EU-15 as a whole. If they can keep it up, they should eventually draw level with the present members. But first they need to get into the club.

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## End-game

May 17th 2001

From The Economist print edition

**Can enlargement really be achieved by 2004-05, as the optimists hope?**



**There will be slaughter when  
they start talking about farming**

MENTION of the EU's negotiations with the candidate countries brings a derisive snort from Daniel Gros, head of the Centre for European Policy Studies, a Brussels think-tank. "What negotiations?" he asks. "They haven't even started yet."

Curiously enough, despite all the huffing and puffing about enlargement, and despite the EU's stated ambition to admit the new members in time for them to take part in the 2004 elections to the European Parliament, Mr Gros has a point. The really tough negotiations—on agriculture, structural funds and the free movement of people and capital—have not even begun.

The explanation lies in the way the accession process is structured. To be allowed through the European Union's pearly gates, a candidate has to pass a series of tests. Before negotiations of any sort can start, it has to satisfy the Union that it has met the political prerequisites of "democracy, the rule of law, human rights and... protection of minorities." Turkey has yet to meet these political criteria, so it cannot even begin talks with the EU. But 12 applicants have got as far as starting discussions with the EU. Poland, the Czech Republic, Hungary, Estonia, Slovenia and Cyprus got the go-ahead in 1997; a second group—Latvia, Lithuania, Malta, the Slovak Republic, Bulgaria and Romania—followed in 1999.

Twelve sets of bilateral negotiations between the EU and the applicant countries are now in progress. The *acquis communautaire*, the existing body of EU law, is chopped up into 31 different chapters, covering everything from agriculture to the environment and the free movement of labour. To complete the obstacle course of accession talks, a country has to "close" all 31



chapters successfully. The simplest way of doing this is to pass all the relevant EU laws. But often one side or the other will seek a temporary modification of the *acquis*, a "transition period". Most of the requests for transition periods come from the applicants (eg, Poland's request for a moratorium on the purchase of land by foreigners), but occasionally the EU makes demands of its own (eg, to delay the free movement of labour).

The negotiations are about trying to narrow the differences between the EU and an applicant country so that a chapter can be closed. The Union's strategy has been to deal with the easiest and least controversial chapters first, which has resulted in the satisfying sound of dossiers being snapped shut all over Brussels. By the end of March 2001, Cyprus, Estonia and Slovenia were ahead in the chapter-closing race, with a tally of 18 completed; Hungary had finished 17, the Poles 15 and Romania a mere six, which put it last. Mr Gros's gibe that real negotiations have not yet started is correct in the sense that most of the chapters closed so far have involved satisfying the EU that the necessary legislation in a given field has been passed. Talks on the really tough chapters—agriculture and regional aid—are not scheduled until the first half of next year. That will be the time when the process of political give-and-take will start in earnest.

Doing the easy bits first allows the EU to hold out a realistic hope that a large number of countries will have concluded negotiations by the end of next year, and will be ready to join the Union by the beginning of 2004. But it also carries the risk that if the negotiations hit trouble, the whole timetable will be set back.

One possible solution doing the rounds in Brussels would be to delay long-term reform of both agricultural and regional policy until after enlargement is completed. There is enough money in the current EU budget, which runs until 2006, to cobble together an interim solution. A grand reform of agriculture and the budget could then be tackled once the new members have got their feet under the table. But this is a risky strategy. Many current members are reluctant to sanction enlargement until its budgetary implications are nailed down. Moreover, it would further delay a comprehensive reform of agricultural policy that is already long overdue. A recent study for the Dutch government argued that deferring reform of the CAP and regional-aid policies until after enlargement is an invitation to subsequent "severe political crises". On the other hand, allowing enlargement to be sunk on the rocks of agricultural reform would also provoke a severe political crisis.

## Who and when?

The most popular parlour game in the strange world of EU enlargement politics might be called "Who and when". Who will be allowed into the club first, and when will it happen?

Officially, the EU maintains that this will be determined by objective criteria. Whichever countries satisfy all the criteria first will get in first, and it will happen when it happens. In reality, though, everybody knows that enlargement is ultimately a political issue, and politicians on both sides will have to strike a bargain.

Their answer to the "who" question has two popular variants, known colloquially as the "big bang" and the "little bang". Supporters of the little bang argue that in the end the EU will decide that the big countries—particularly Poland—will not be ready to sign a deal by the end of 2002. But to demonstrate that the enlargement process is not just a gigantic tease, it will allow in some of the smaller countries that carry less economic and political weight. The smallest possible bang might take in Slovenia and Estonia. A more credible little bang would include Hungary and probably the Czech Republic.

But how plausible would it be to leave Poland out? The EU's most recent report on Polish readiness, issued towards the end of last year, was encouraging, but the Poles have set ambitious targets for closing chapters in the first six months of this year that will not be met. They grumble that the EU has been slow to get its act together; the EU counter-grumbles that Poland is guilty of the

same offence. One commentator who follows the issue closely likens Poland to "the fat boy in the middle of the class who keeps failing to hand in his homework on time".

Even so, the political dynamics of enlargement suggest that the fat boy will just scrape through. Whatever its failings in matters of detail, it is hard to argue that Poland is in worse economic and political shape than countries such as the Czech Republic and Estonia, which currently appear to be ahead in the race. Poland also has powerful friends, above all Germany. As one Nordic ambassador to the EU puts it: "For Germany, the whole point of enlargement is Poland. It is just inconceivable that it would allow a first wave of enlargement that did not include the Poles."

Once the Poles are in, the attractions of a really "big bang" will increase. Politicians will ask: can we really let in one Baltic state (those goody-goody Estonians) and leave out the other two? Can we really let in the Czechs and keep out the Slovaks? The answer on both counts is likely to be no. In this respect the enlargement process may come to look like the argument over who could join Europe's single currency. The EU's first instinct had been to adopt a strict interpretation of the Maastricht criteria, which would have limited the number of countries joining the euro, but the political difficulty of saying no proved overwhelming. Something similar is likely to happen with enlargement. The most probable outcome, therefore, is that eight to ten of the applicant countries will become members in 2004 or 2005, with only Bulgaria and Romania certain to miss out on the first wave.

## The ratification game

But enlargement will not end with the announcement of the lucky winners and their entry dates. It will still have to be ratified by the parliaments of all the existing members as well as by those of all the new members. Most of the new members will also hold referendums. The outcome is not a foregone conclusion; indeed, there is potential for considerable trouble.

Take the applicant countries first. Some referendums could easily go wrong. Current opinion polls in Malta, for example, suggest that the little island may actually reject EU membership even if offered it. This may not have much geopolitical effect, but not being good enough for Malta might deal a blow to the EU's self-esteem.

Much more serious would be rejection by one of the big countries of Central and Eastern Europe. As noted earlier, support for EU membership has tended to decline in all the applicant countries as the prospect has become more real. In Poland and Hungary support is still a little above 50%, with substantial numbers of "don't knows". The chances are still that these countries will say yes to the EU. But if they felt that they had been given a bad deal in the negotiations, they might conceivably end up saying no.

However, if a deal on enlargement were to blow up, the explosion would be more likely to happen in the existing member countries. Opinion polls suggest that support for EU enlargement among western voters is subdued, and that the issue is regarded as a low priority. At the moment there is a cross-party political consensus in favour of enlargement in almost all the EU-15 countries. But what if a mainstream Austrian or German political party were to fasten on the prospect of immigrants from the east, or if a Spanish or Portuguese party were to decide that the financial sacrifices for their country were just too great?

Some of the existing members may even have referendums on enlargement, because it will involve changes to the EU's treaties. Such referendums can easily become hostage to general feelings of hostility to the European Union. One early test of this will come on June 7th, when Ireland is due to vote on the Nice treaty, concluded last December, that adapted the EU's institutions to allow for enlargement. Ireland is generally regarded as reliably pro-European. But the EU and all its works are not particularly popular there at the moment because of a recent reprimand from Brussels over Ireland's budgetary policy. Opinion polls suggest that a no vote is possible. That would plunge the

enlargement process into an early crisis.

Lastly, there is the issue that some observers regard as the unexploded bomb beneath the whole enlargement process: Cyprus. At present, the island is divided into a Turkish-occupied and a Greek-occupied part. The EU is negotiating only with the Greek part, but has made it clear that it is extremely reluctant to admit a divided island to membership. The hope is still that the prospect of enlargement will spur a Cyprus settlement, allowing the Union to welcome a reunited island as a member. But so far there is no sign of progress in the peace talks.

This confronts the Union with a dilemma. Admitting a divided island would enrage and possibly destabilise Turkey, an important strategic partner. That is reason enough for many existing members to oppose the idea; indeed the Dutch Parliament has passed a resolution saying that it would vote against any enlargement that included a divided Cyprus. But the Greeks are equally adamant that their bit of Cyprus must be allowed into the Union. The Greek Parliament would very likely veto any enlargement that keeps Cyprus out.

The top ranks of the EU are utterly divided on what to do. One senior EU official says that, faced with the certainty of a Greek veto of enlargement, the EU would have to let in a divided Cyprus because "we simply cannot let the whole of Central Europe be held hostage by the Cyprus question." Across the road, another top official says it is "inconceivable" that the EU would let in a divided Cyprus.

Either way, the Cyprus issue begs the question of relations with Turkey. And that, in turn, raises the ultimate issue of EU enlargement: where will the EU stop?

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## The limits of Europe

May 17th 2001

From The Economist print edition

### Where will it all end?



### Thus far and no further?

A SUCCESSFUL conclusion of the current enlargement negotiations will almost double the number of European Union members. The Europe of 15 will become the Europe of 27. Many EU politicians and policymakers will want to call a halt there: they already harbour serious doubts about the union's ability to cope with even 12 new members. But drawing a line may prove impossible.

The first and most pressing issue will be Turkey's application to join the Union. The Turks have been kept waiting for decades. They signed an association agreement with the EEC—widely seen as a first step on the road to membership—back in 1963, 30 long years before the Czech Republic signed a similar agreement. Turkey's formal application for membership was submitted in 1987, seven years before Poland's and Hungary's. If and when the countries of Central and Eastern Europe are admitted, the question of what to do about Turkey will become acute.

But Turkey will not be the only country hammering at the door. Almost all the Balkan countries also aspire to join the Union. The EU is encouraging them to think about membership, in the hope that the prospect will improve stability and respect for human rights. On April 9th Macedonia, still on the brink of a civil war, became the first Balkan country to sign a "stabilisation and association agreement" with the EU, holding out the prospect of eventual membership. Croatia is already in discussions about signing a similar agreement, and Albania, Bosnia and Yugoslavia are other potential candidates.

If the Balkan countries can join, what about Russia's partners in the Commonwealth of Independent States (CIS)? And come to think of it, what about Russia itself? Opinion polls show that over 50% of Russians think it would be a good idea for them to join the EU. But policymakers in the EU do not return the favour. Russia is just too big and too different, they say, and would be too difficult to absorb. The problem, though, would be to find an objective reason for keeping Russia (or any other future applicant) out should it ever decide to put in a bid for membership. The EU is meant to be a

liberal organisation, based on rational, non-discriminatory principles. It cannot say (to Turkey): "We won't let you in because you are mainly Muslims," or (to Russia): "We won't let you in because we don't trust you." It has to apply objective criteria.

And if, eventually, future applicants were to satisfy the EU's political and economic requirements? Then let them in, some would say. After all, if Ukraine, or indeed Russia, had a well-established democracy and a functioning market economy, there would be no need to worry about it becoming a member. The Brussels-based Centre for European Policy Studies has already published a paper spelling out voting weights and numbers of MEPs in a future European Union of 50 members (echoing, not entirely coincidentally, the number of states in the USA).

Others shake their heads and say that the Union must find objective criteria to support what at heart everybody feels: that some countries can never become members. But what might these criteria be? Geography won't do. After all, if Turkey is deemed to be part of Europe, then surely Russia is too? Culture is equally tricky. Most EU leaders are understandably reluctant to define some sort of core European culture that goes beyond liberal democratic principles. Religion is a particularly sensitive area. Mr Verheugen at the commission argues that Turkey can hardly be excluded for being Muslim when millions of Muslims are already citizens of the EU. But religion clearly plays some part in his thinking about European-ness. Later in the conversation, when discussing the claims of Armenia and Georgia to eventual membership, he points out that their people were Christians when the West Europeans were still pagans.

For the moment, however, the question of EU membership for countries such as Armenia remains academic. It is a different matter for Turkey, whose application is already on the table. To date it has not been allowed to press ahead with negotiations because it is not yet deemed to have satisfied the political criteria for membership. Earlier this year Turkey presented the EU with a proposed programme of political change to meet the Union's main concerns. But many in the EU reckon that it could still take decades before the Turks are able to meet crucial political demands, such as full respect for the rights of the Kurdish minority and an end to the political role of the armed forces.

It is already clear, however, that even if Turkey does eventually meet the political criteria for membership, an important faction within the EU will continue to oppose its membership. It already has a larger population than any EU country bar Germany (64m against 80m), and forecasts suggest that within a generation it could overtake Germany too. The idea that Turkey could be the most populous nation within the EU, with all the associated voting power in the Council of Ministers and the European Parliament, is too much for some. Ulrike Guerot, head of EU research at the German Council on Foreign Relations, says simply: "You cannot have a situation in which the country with the biggest weight in the EU is also the poorest, is on the geographical periphery of Europe, is not a founding member of the European Union and has no history of European integration."

American foreign-policymakers have often argued that Turkey should be allowed into the EU for strategic reasons, and Ms Guerot believes that in granting candidate status to Turkey the EU was caving in to American pressure. "These Americans have no conception of what EU membership entails," she fumes. "Yes, there is a security aspect; but if you want the EU to be a strong partner, you cannot have Turkey inside the EU, destabilising it." Hers is not a lone voice. Helmut Schmidt, a former German chancellor in a Social Democrat-led government, and Edmund Stoiber, one of the leading figures on the German right, have expressed similar reservations recently.

The Turks are already angry about the EU's plans to form a European defence arm that would include Greece but not Turkey. They are threatening to use their leverage within NATO to prevent the proposed EU force from being given automatic access to NATO assets. But Turkish anger about the EU's military plans would be as nothing compared with the fury that would be provoked by an EU decision to admit the Greek half of Cyprus to membership. If at the same time the Turks were to conclude that the EU was giving them the runaround over enlargement, things could get nasty. The pro-western camp in Turkey has consistently argued that EU membership is essential to the

country's well-being. If relations with Europe go sour, other voices—for example, those of militant nationalists and Islamic fundamentalists—might get more of a hearing.

The whole Turkish dilemma is an example of how the EU's efforts to bring stability to the countries inside an enlarged Union risk destabilising the countries that will find themselves left out. Nor is Turkey the only one. The outlook for Ukraine, for example, could go from bad to worse if the country's economic and political ties with Poland were to be weakened by new Polish visa requirements and stronger border controls.

And what of the Russians? It is certainly conceivable that EU enlargement could reactivate strategic rivalry with the former superpower. For the moment, however, Russia seems oddly relaxed about it. The Putin government has made it clear that it opposes the extension of NATO to the Baltic states, but is in favour of their prospective EU membership. Russian officials have even whispered that they regard the EU as the best safeguard for the rights of Russian minorities in the Baltic states.

But there is no guarantee that the Russians will remain so relaxed about enlargement. The Kaliningrad enclave (a bit of Russia entirely surrounded by what could become EU territory) offers an obvious potential flashpoint. More generally, whereas diplomats in the EU may talk of creating new forms of governance and international order, the Russians take a traditional "realist" approach to foreign policy. If an enlarged EU were to develop a genuine defence arm, a common foreign policy worthy of the name and a more integrated political structure, a "realist" might regard that as a threat.

Both the Turkish and the Russian questions suggest that the EU now needs to think about developing a foreign policy for countries that may remain outside the Union. Christoph Bertram, director of the Stiftung Wissenschaft und Politik, a Berlin-based think-tank, argues that the EU has developed only one foreign-policy tool, the offer of enlargement. "It has proved a really excellent way of persuading countries to behave in the ways that you want," he says. "But sooner or later the EU has to be able to draw a line and work out new forms of relationships with countries that are not going to join the Union."

With Russia, that could involve a free-trade agreement, as well as the development of close co-operation and consultation on a range of subjects, from environmental clean-up to the fight against crime. Turkey already has a free-trade deal with the European Union and may yet join the EU itself, but if not, the EU will have to come up with new and imaginative ways to maintain a good relationship with the country. That might involve allowing the Turks access to some EU institutions, such as the defence arm, as well as a built-in right of consultation over any EU legislation that may affect them.

The most important questions posed by enlargement are about stability. How will an enlarged EU maintain internal stability in its institutions and external stability in its relations with the outside world? The questions seem different, but the answers may be connected.

For years, debates about the future of the EU have revolved around the choice between widening and deepening. Widening (meaning enlargement) has often been advocated by those who feared deepening (meaning a move towards an ever closer federal union), in the belief that a larger union would also be a looser one. For the same reason, many integrationists have feared enlargement. As widening has drawn nearer, however, the federalists have changed their argument. They are now saying that closer union is needed to ensure that an enlarged EU can still work. If there are too many national vetoes, they suggest, the EU will be unable to take decisions. In a variant of this argument, some of them appeal for a closer union restricted to an inner core of members.

But neither camp offers a real solution to the internal dilemmas posed by enlargement. A tighter federal union that attempted to impose more and more common rules on 27 countries at different stages of development, each with its own national traditions, would almost inevitably create a backlash. Before long, an empire run from Brussels would be having to quash rebellions in the



provinces. The idea of an inner core at least recognises that different countries want and need different things from the EU. But defining the inner core will be difficult. Some in Brussels reckon that membership of the single currency will come to define the difference between "inner" and "outer" members of the club. But, as noted earlier, the new Central and East European members may join the euro sooner than expected; and an inner core of 16 or 17 countries would still be very hard to manage.

Fortunately, a better solution seems to be emerging of its own accord. The EU is gradually turning into a series of overlapping clubs. Some rules, in particular those governing the internal market—which is still the EU's most important feature—will have to be adopted by all members. But membership of other clubs will be optional. For example, some countries, such as Britain, may choose to play a leading role in foreign policy and defence, but stay out of monetary union. Others may stay clear of tighter defence co-operation, but go along with closer co-operation on taxation or internal policing. Such flexibility should allow the new member states from Central and Eastern Europe to choose the type of EU membership that meets their needs and allows them room to breathe.

## **Less can be more**

Advocates of a federal arrangement will complain that an EU of overlapping clubs will lack coherence, and will find it hard to act as a powerful force on the world stage. But that may be all to the good, because a looser, less coherent EU is more likely to be regarded as a force for peace and stability around the world. Any nation-state seeking to enlarge its territory in the way that the European Union is doing would long since have been accused of imperialism and made enemies for itself. The remarkable thing about the current round of EU enlargement is how little opposition it has aroused in the outside world. Indeed, most of the EU's potential strategic rivals are in favour of enlargement, because they recognise that whereas the European Union has played an important role in creating peace and prosperity, it looks unlikely ever to develop a nation-state's ability to project power.

Ultimately, the enlargement of the EU is about preserving and enhancing stability across Europe. It can achieve that aim, but only if it recognises that an enlarged European Union should not aspire to be either a superpower or a superstate.